COMPANY RESEARCH AND ANALYSIS REPORT

Daiki Axis Co., Ltd.

4245

Tokyo Stock Exchange Standard Market

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Index

Summary

Sustainable management to achieve SDGs through its business related to the water environment

At Daiki Axis Co., Ltd. <4245> (hereafter "the Company), in 1H FY12/23, the environmental equipment business accounted for 51.5% of net sales and 74.2% of operating income before adjustments. The Company is pursuing ESG management to embody its slogan "Protect the environment. Change the future.," and through its main business it is promoting SDG 6, which is to "Ensure availability and sustainable management of water and sanitation for all." The Company established the Sustainability Committee in August 2023 and concluded a positive impact finance agreement that same month. Going forward, it will seek to be the top company in medium-scale water treatment sector in Asia and Africa, where the market is developing, and play a large role in emerging countries.

1. Overview of 1H FY12/23 results

In the Company's consolidated results for 1H FY12/23, net sales increased 4.9% year-on-year (YoY) to ¥21,067mn, operating income dropped 37.7% to ¥330mn, and ordinary income fell 41.3% to ¥412mn. The changes were mainly attributable to an increase in personnel and other expenses and being slow to adjust selling prices to account for cost increases. Raw material prices and electric energy costs soared, while there were also increases in the prices of purchased goods, personnel expenses, transport expenses, travel and transportation expenses, and goodwill. In Johkasou for the domestic market, non-conformance with a certification arose as an issue with the product, and the expenses incurred in responding were recorded as an extraordinary loss, so profit attributable to owners of parent declined 98.9% to ¥4mn.

2. Forecasts for FY12/23 results

FY12/23 is positioned as a plateau, with the Company predicting higher revenue and lower profit from the start. However, in light of the 1H results, the margin of profit decline is increasing because of the situation with price adjustments, so while the Company maintained its forecast for net sales of an increase of 1.3% to ¥40,000mn, it revised the others to a decrease in operating income of 31.0% to ¥570mn, a decrease in ordinary income of 43.7% to ¥660mn, and a decrease in profit attributable to owners of parent of 43.1% to ¥327mn. Profit attributable to owners of parent declined sharply in 1H due to recording an extraordinary loss, but there has been collaboration with the developer on the cost burden, so an extraordinary gain is expected in the second half.

Regarding overseas sales, a large project equivalent to the JICA support project in Iraq recorded in the previous year dropped off, so sales are expected to decline by 37.7% to ¥1,400mn. A new self-owned factory, the Company's second in India, began making shipments in February 2023. Demand for Johkasou was rampant, so if production could be increased depending on proficiency, it would likely contribute to increased earnings. In FY12/23, an increase in expenses from upfront investments for deployment of new IT tools, for example, will put pressure on profits. Revising conventional work processes, sharing information, and eliminating paper via digital transformation (DX) to increase employee productivity is expected to make a positive impact on results starting in FY12/24.

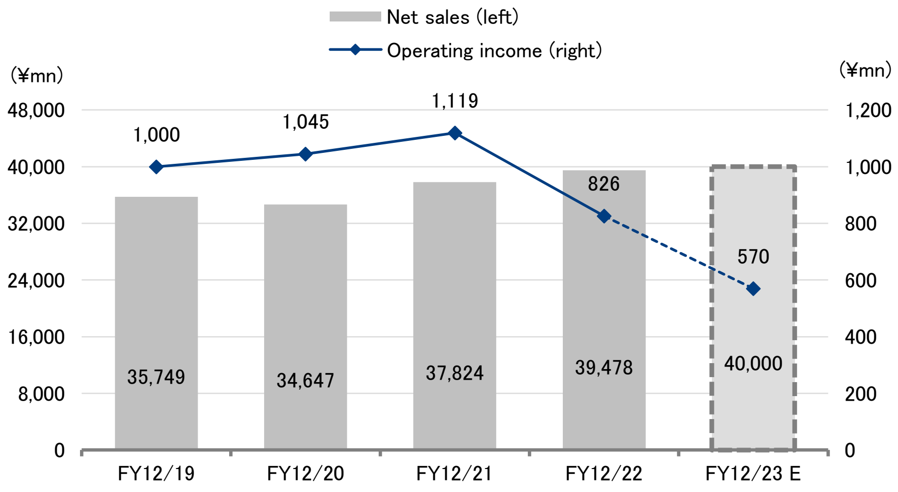
3. Maintained plan for dividend to commemorate 65th anniversary

In FY12/23, results forecasts were downwardly revised, but the Company is maintaining its plan to pay a special ¥6 per share dividend to commemorate its 65th anniversary. This will be added to the regular dividend of ¥24 for a full-year dividend of ¥30 (¥15 interim, ¥15 at year end).

Key Points

- For 1H FY12/23, profit to decline on slow price adjustments to counter rising costs
- Upfront investment expenses expected to have positive impact on results from FY12/24 on
- In FY12/23, maintaining a ¥30 per share annual dividend as initially planned

Result trends



Source: Prepared by FISCO from the Company's financial results

Company profile

Daiki Axis protects the environment and create a sustainable society and future

1. Company profile

The Daiki Axis Group has developed its business to protect the earth's environment and create a sustainability society and future pivoting on water-related businesses that include kitchen and bathroom household equipment, Johkasou water-purifying tanks, and industrial wastewater treatment. Celebrating 65 years this year, the Company has established a corporate slogan of "PROTECT×CHANGE, signifying the concept of 'Protect the environment. Change the future.'" Of the 17 Sustainable Development Goals adopted at the UN Summitt, the Company is deeply involved through its environment equipment business in Goal 6, "Ensure availability and sustainable management of water and sanitation for all." In emerging countries in Asia and Africa, environmental pollution caused by water contamination cannot be overlooked. The Group has a mission to "Protect the environment. Change the future.," which means protecting the global environment though business development and changing the direction of the future for the better. It also has a stated purpose to "Solve the world's environmental problems with technologies and ideas and support the lives of people around the world." The Group's strength lies in the fact that it has an integrated system for everything from design and manufacture, to sales, installation and maintenance for small- to medium-scale water treatment projects. As a part of its growth strategy, the Company is working to expand its environmental equipment business overseas.

In December 2013, the Company was listed in the Chemicals sector in the 2nd Section of the Tokyo Stock Exchange (TSE) and was transferred to the 1st Section in December 2014. In April 2022, it was moved to the Prime Market when the TSE restructured its market segments. The Company is actively expanding its environmental equipment business overseas, and selected a market classification for companies focused on constructive dialogue with global investors. It established the Sustainability Committee and has issued integrated reports. However, with regard to clearing the market cap standard for liquid stock, there are many uncertainties. If the Company maintains its listing on the Prime Market without meeting the listing criteria, after transitional measures have passed, it possibly faces the risk of being delisted, so to avoid this risk and based on a comprehensive decision related to the management environment and profits for existing shareholders, the Company selected and applied for the Standard Market in May 2023. And its market classification changed to the Standard Market on October 20, 2023.

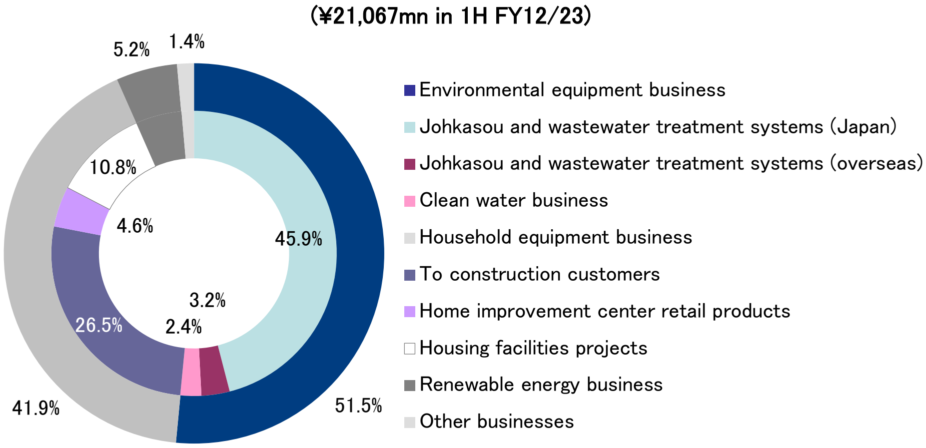
2. History

The Company was established in 1958 in Matsuyama, Ehime Prefecture and celebrated its 65th anniversary in 2023. In 1964 its predecessor Daiki Co., Ltd. was established and began producing aeration Johkasou that same year. In 1978, Daiki entered the home improvement center business and in 2003 formed business alliances with Homac Co., Ltd. and Khama Co., Ltd. and then made the decision to merge. In 2006, DCM Holdings <3050> was established, but prior to that Daiki established the Company to engage in businesses other than the home improvement center business and these businesses were transferred to it. Thereafter, due to a management buyout, the Company became independent of Daiki and the two companies' capital relationship ended, but they continue to maintain a good business relationship. The Company has expanded its domain from wholesaling household equipment, its original business, and through M&A and other means has created a management founded on three pillars, the environmental equipment business and renewable energy business adding to the household equipment business. In the overseas business, which the Company is focused on as a growth market, it created a bridgehead to the Southeast Asian market by acquiring a local Indonesian company in 2013. It also established a subsidiary in India in 2018, which has a large latent market.

3. Business description

Breaking down the 1H FY12/23 consolidated net sales of ¥21,067mn, the environmental equipment business, which includes the Johkasou and wastewater treatment systems businesses, provided 51.5%; the household equipment business, such as wholesale to construction customers, provided 41.9%; the renewable energy business, which is mainly the power sales business through solar power facilities, provided 5.2%; and other businesses provided 1.4%. The operating income margin by business segment before adjustment was 7.1% for the environmental equipment business, 2.0% for the household equipment business, 6.0% for the renewable energy business, and 8.3% for other businesses. The household equipment business has the highest share of wholesale sales and a profit margin that is lower than the other businesses.

Shares of Consolidated Net Sales
(¥21,067mn in 1H FY12/23)



Source: Prepared by FISCO from the Company's financial results briefing materials

Concluded a Positive Impact Finance Contract

4. ESG management

The Group conducts management with an awareness of ESG. It has built a sturdy business foundation and is contributing to the creation of a sustainable environment and society through both business activities and corporate activities as it seeks to improve people's quality of life. For the environment (E), the Company engages in the water-related infrastructure business, biodiesel fuel business, compact wind power generation business, and electricity sales related to solar power generation. It has also earned international certification for its management system. For society (S), the Company promotes diversity and the advancement of female employees, engages in work style reforms, and helps people with disabilities become more involved in society. In August 2023, it established the Sustainability Committee. The Company is oriented not only to the pursuit of profit but also to contributing to protecting and preserving the natural environment, contributing to local communities, and maintaining social systems that include active investment in human resources in order to raise corporate value over the medium to long term. In the same month, it published its first integrated report. Going forward, to further enhance disclosure of non-financial information and promote dialogue with stakeholders, it will enhance its response to the Task Force on Climate-related Financial Disclosures (TCFD recommendations) and to the disclosure of non-financial information, such as the independence of human capital. With regard to governance (G), the Company is a company with an Audit and Supervisory Committee, and to strengthen corporate governance it has established a Nomination and Remuneration Committee. Regarding the makeup of the Board of Directors, independent outside directors account for 43%.

Regarding the SDGs the Company is involved in 12 of the 17 of them and has identified seven key issues (materiality). These are: 1) Initiatives to adapt to and mitigate climate change, 2) Protect Japan's rich water environment, 3) Create beautiful water environments globally, 4) Contribute to sustainable community development and living environments, 5) Build workplace environments for meaningful work, 6) Respect stakeholders, and 7) Establish effective corporate governance.

Key Issues (Materiality) Identified by the Sustainability Committee

	Materiality item	Related segment(s)	SDGs contribution
Biosphere	Initiatives to adapt to or mitigate climate change	Companywide	7, 13
	Protect Japan's rich water environment	Environmental equipment business (Japan)	
	Create beautiful water environments globally	Environmental equipment business (Overseas)	6, 14
Social sphere	Contribute to sustainable community development and living environments	Environmental equipment business (Japan) Household equipment business Renewable energy business	6, 9, 14, 7, 11, 12
	Build workplace environments for meaningful work	Companywide	3, 4, 5, 8
	Respect stakeholders	Companywide	17
Economic sphere	Establishment effective corporate governance	Companywide	

Source: Prepared by FISCO from the Company's financial results briefing materials

In August 2023, the Company entered into a syndicated Positive Impact Financing agreement with The Iyo Bank, Ltd. and MUFG Bank, Ltd. The composition amount is ¥8 billion. In positive impact finance, the impact of corporate activities on the environment, society, and economy (positive impact and negative impact) are comprehensively analyzed and evaluated based the Principles for Positive Impact Finance and associated guidelines established by the United Nations Environment Programme Finance Initiative (UNEPFI), and finance is provided for the purpose of providing continuing support for activities. The financing is categorized as sustainable finance and interest rates may be lowered depending on the assessment of SDGs and decarbonization. In concluding this contract, the Company's businesses and key issues (materiality) were primarily assessed as activities making a positive impact on achievement of the SDGs goals based on the Positive Impact Finance Framework created jointly by MUFG bank and Mitsubishi UFJ Research and Consulting. The evaluation has been independently certified by the Japan Credit Rating Agency, Ltd. as being consistent with UNEPFI's Principles for Positive Impact Finance.

5. Group companies

The Group consists of the Company, 15 consolidated subsidiaries (eight domestic, seven overseas), one non-consolidated subsidiary (one domestic) and two affiliated companies (two overseas). The main Group companies include three domestic and nine overseas (including one joint venture) in the environmental equipment business, three companies in the household equipment business, and two companies in the renewable energy business.

In February 2023, the Company acquired two companies. ADORE SYSTEM Co., Ltd. (Hiroshima City, Hiroshima Prefecture) runs an air conditioning installation business primarily in the Sanyo region, starting with Hiroshima Prefecture. MEDEA Co., Ltd. (Saitama City, Saitama Prefecture) conducts an electrical construction business that primarily consists of designing, installing, maintaining and managing solar power facilities, and it also sells electricity produced by solar power facilities that it owns. In the solar power facilities business, the Company purchased Sanei Ecohome Inc. in 2021, which designs, installs, maintains and manages solar power facilities. Thereafter, it was merged with Daiki Axis Sustainable Power Co., Ltd. (DASP). Intra-Group coordination with MEDEA, which operates the same business, will make it possible to build a system that can more rapidly respond to the requests of large power consumers and make more appropriate proposals to meet customer needs.

Group company

Name	Date	Form	Base	Business description
Environmental equipment business				
[Japan]				
DAITEC Co., Ltd.	2005/10	Business succession	Matsuyama City, Ehime Prefecture	Inspections of Johkasou and drinking water/wastewater facilities, comprehensive building management
Environment Analysis Center Co., Ltd.	2005/10	Business succession	Matsuyama City, Ehime Prefecture	Analysis of water quality, air, soil, etc. as an environmental measurement verification office
TOBU Co., Ltd.	2007/11	Acquisition	Nagoya City, Aichi Prefecture	Design, construction and maintenance inspections of various water treatment facilities, mainly in the Tokai area
[Overseas]				
Daqi Environmental Protection Engineering (Dalian) Co., Ltd.	2005/10	Business succession	China	Design, construction and sales of sewage treatment equipment, greywater and filtration equipment, etc.
PT. DAIKI AXIS INDONESIA	2013/10	Acquisition	Indonesia	Base to enter South East Asia to manufacture Johkasou
DAIKI AXIS SINGAPORE PTE. LTD.	2016/8	Establishment	Singapore	Company that supervises overseas subsidiaries
Crystal Clear Contractor Pte. Ltd.	2018/11	Acquisition	Singapore	Pool maintenance work, pool equipment sanitation wastewater construction work
DAIKI AXIS INDIA Pvt. Ltd.	2018/7	Establishment	India	Manufacture and sales base of Johkasou in India
DAIKI AXIS ENVIRONMENT PVT. LTD.	2021/6	Establishment	India	Manufacture base of Johkasou in India
Lingzhi Daiki Purification Tank Earth Water Limited Jiangsu Co., Ltd.*1	2018/3	Establishment	China	Manufacturing base for residential-use Johkasou in China (joint venture)
DAIKI-USAFI LIMITED*2	2019/10	Establishment	Kenya	Wastewater treatment business in Kenya
DAIKI AXIS ENVIRONMENT (PVT) LTD.	2021/5	Establishment	Sri Lanka	Manufacture (assembly) and sales base of Johkasou in Sri Lanka
Household equipment business				
Fujiwara Reiki Co., Ltd.	2019/10	Acquisition	Matsuyama City, Ehime Prefecture	General equipment business (including for HVAC equipment), sales of freezers and refrigerators
Alumi kobo Hagio Co., Ltd.	2021/10	Acquisition	Niihama City, Ehime Prefecture	Installation and sales of residential window sash and exterior-related equipment
ADORE SYSTEM Co., Ltd.*3	2023/2	Acquisition	Hiroshima City, Hiroshima Prefecture	Design and installation of air conditioning facilities
Renewable energy business				
Daiki Axis Sustainable Power Co., Ltd.	2012/4	Acquisition	Tokyo	Solar power facility design, installation, management and electricity sales, BDF manufacture and sale, sale of BDF refinement plants, small-scale wind power facility R&D, manufacture, sale, installation, and electricity sales, and water treatment facility development, design, manufacture, sale, and maintenance
MEDEA Co., Ltd.*3	2023/2	Acquisition	Saitama City, Saitama Prefecture	Renewable energy-related business (centered on solar power generation facilities) and electrical construction

*1 Equity-method affiliate
*2 Outside scope of consolidation due to limited numerical impact
*3 Acquired FY12/23
Source: Prepared by FISCO from the Company's financial results briefing materials

Business overview

Environmental equipment business earns around 50% of net sales and over 70% of profit

1. Environmental equipment business

The environmental equipment business is a major business that accounted for 51.5% of net sales and 74.2% of operating income before adjustments in 1H FY12/23.

(1) Domestic business

The Company was founded in 2005, but the first FRP Johkasou was completed in1965, and starting from the Daiki years, the Company has been involved in the development, design, manufacture, installation, sale and maintenance of wastewater treatment equipment for over a half century. The business handles everything from clean water, greywater (wastewater recycling systems), and sewage (residential Johkasou, community wastewater treatment systems, and industrial wastewater treatment facilities). Regarding shares of the environmental equipment business in FY12/22, the clean water business that converts groundwater to drinking water provided 4.4%, greywater systems provided 0.2%, sewage-related domestic compact-type combination treatment Johkasou provided 7.0%, wastewater treatment systems for condominiums, food processing plants, hospitals, electrical machinery and plating plants provided 62.6% and maintenance accounted for 25.8%.

The domestic business of the environmental equipment business has 29 locations that cover all of Japan's major cities. The Company has manufacturing facilities in four locations and is working to increase transport efficiency for customers in remote locations compared to its factories by utilizing its network with partner company Daie Industry Co., Ltd.

One of this business's features is integrated operations of wastewater treatment facilities. Provision of maintenance services sustains contact with customers and leads to orders for repairs and expansion projects. Knowledge of customer needs confirmed through on-site interaction is also fed back to R&D activities. Regarding maintenance, the Company has a dedicated division that provides services that meet customer requirements, such as 24-hour monitoring and spot responses.

The Company's growth strategy is to strengthen the recurring-income business that is a stable source of earnings. It handles store Johkasou installations and maintenance and store management tasks (cleaning, fire prevention, electricity and other inspections) at the DCM Group's stores. It has been expanding bulk orders of wastewater treatment equipment and Johkasou maintenance at major convenience store chains and major restaurant chain stores and their central kitchens. In contrast to existing service providers that can provide only individual services specific to local areas, the Company seeks to differentiate itself by not only lowering costs, but also by delivering uniform services on a nationwide scale. For businesses (its customers) that operate many stores, management of legal inspections and inspection records of Johkasou, inspection records of wastewater treatment equipment, etc. is complicated.

The Company, which undertakes these tasks in its maintenance business, has introduced a new IT system to upgrade its legal inspections management system so that it meets the needs of clients. It utilizes an IT system to collect and aggregate daily records relating to maintenance, which not only increases the governance of the chain's headquarters, but also reduces the clerical work burden. Leveraging the competitive advantages of the IT system, it is progressing a strategy of capturing chain headquarters. It is also aiming to improve productivity and profitability through the management of facilities, construction work, and business partners based on data.

Demand for residential combination treatment Johkasou is linked to the number of new housing starts, so the domestic market is saturated. The Company is maintaining its market share and following up on the latest technologies for overseas expansion. Industrial wastewater treatment is divided between organic treatment and inorganic treatment. Food processing centers and hospitals, for example, use organic biological treatment while inorganic chemical treatment is used at electrical machinery and plating factories.

(2) Overseas business development

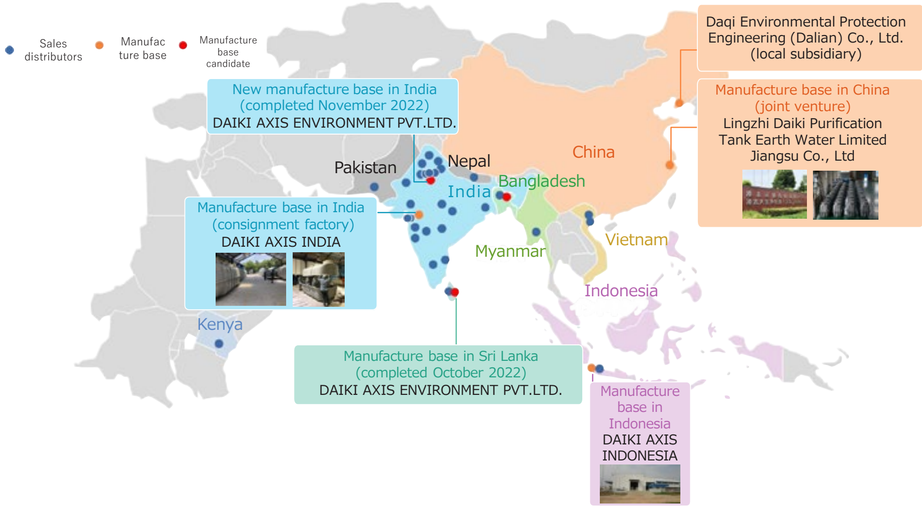
New projects are declining in the domestic market because of Japan's shrinking population and improved water quality. In contrast, water pollution in emerging countries is at a stage where urgent action is required. Therefore, the market for water treatment systems is likely to grow in countries with a low sewerage infrastructure diffusion rate. The water infrastructure business consists of three main businesses: materials, parts, and equipment manufacturing; equipment design, assembly, installation, and operation; and business operation, maintenance, and management (water sales). Overseas water majors cover all these areas. Japanese players, meanwhile, specialize in individual areas, such as water treatment equipment, engineering, and organizer. The Group differs from the water majors because it targets smaller wastewater treatment systems. Having the ability to provide the abovementioned three main businesses enables the Company to differentiate itself from other Japanese companies. It can handle both household and industrial wastewater treatment, and public water purification. There is the high possibility of obtaining a first-mover advantage with the expansion of the markets for small- and medium-scale wastewater treatment systems in ASEAN, India, and Africa.

"Accelerate overseas business development," which is the first of the growth strategies, is deeply connected to the sixth SDG, which states "Ensure availability and sustainable management of water and sanitation for all." The situation in emerging countries in Asia and Africa is that environmental pollution due to water pollution cannot be overlooked, so new wastewater treatment standards are being introduced. In the medium- to small-scale wastewater treatment field to which the Company belongs, local companies do not possess the technological level to meet the standards that have been made even stricter. Even for overseas companies that possess advanced technological capabilities, they are unable to provide cost-competitive products suited to local water conditions in markets they have not yet entered. The Company is able to develop products that are tailored to water businesses in each of these countries and regions, conduct demonstration experiments and is striving to obtain certification proving that its products clear the stricter level of regulations, and conduct local production in production forms that are suited to the development levels of each region and market, including through the establishment of wholly owned subsidiaries, joint ventures, outsourced production, and integrated in-house production in the main markets to realize costs that are locally acceptable.

The Company targets FY12/25 overseas net sales of ¥4,000mn, of which India is expected to provide 50%. India's population surpassed China's to take the world number one spot in 2023. Its real GDP growth rate exceeded China's at 6.7% in 2022. Its nominal GDP was US$3.38tn (approximately ¥460tn), 80% of Japan's, overtaking the UK at fifth-largest in the world. India's population is about 1.4 billion people, 11 times greater that of Japan, with a land area the seventh-largest in the world at 3.28 million km^2, about nine times that of Japan (370,000 km^2, 62nd in the world). As of July 2021, the median age in India was a young 27.6 versus Japan's 48.4. With such a large population, India is in its demographic bonus stage, can expect continued robust economic growth and is entering a period of establishing its social capital, including sewerage infrastructure.

The overseas business has three bases in China (two sales bases, one joint manufacturing base), three bases in Indonesia (one manufacturing base and two sales bases, two bases in India (manufacturing and sales), two bases in Singapore (one management base and one sales base), one base in Kenya (sales), and one base in Sri Lanka (sales and manufacturing). As for distributors, there are 23 companies in India, three companies in Indonesia, and one each in Vietnam, Myanmar, Bangladesh, Nepal, Sri Lanka, Pakistan and Kenya. Based on local needs, the market's development, and risks, the Company selects the appropriate format for business development, whether full ownership, joint venture, purchase, production consignment, proprietary production, assembly or integrated manufacturing.

Overseas expansion: Production bases and distributor network in Asia and Africa for the environmental equipment business



Source: Cited from company briefing materials for investments

In the Chinese market, the Indonesian factory supplies products to meet demand for medium- and large-scale Johkasou. Small-scale products are supplied by a joint venture. The Company provides molds and other manufacturing equipment to the joint venture while also offering technical guidance. The factory was built on the site of the joint venture, so initial investment was not high. In Indonesia, Japanese manufacturing methods were deployed after acquiring a local company and building a new plant. In India, local production was started by initially consigning production to a single distributor. The consignment plant is located in the western city of Mumbai. The second self-owned factory in India was built on the outskirts of Delhi in the north. The new factory not only manufactures capsule types on a consignment production basis but also makes cylindrical types that depend on imports from Indonesia.

Johkasou of the same type as those made at the new plant in India

Capsule-type Johkasou

Cylindrical Johkasou

Source: The Company's news releases

2. Household equipment business

Breaking down net sales in the household equipment business, construction customers provided 63.3%, home improvement center retail products 10.8%, and housing facilities projects 25.7%.

The predecessor of Daiki began in 1958 as a seller of tiles and hygienic porcelain. It has a decades-long track record as a wholesaler of household equipment. It sells system kitchens, toilets, unit baths and other kitchen and bathroom equipment to general contractors, local construction companies, and home builders. Its commercial sphere is primarily Shikoku, where its head office is located, Chugoku facing the Seto Inland Sea, and the Kinki area, and the Company has a strong track record of sales in these areas. It conducts wholesale sales of indoor and outdoor materials for commercial facilities. It also develops new products to meet the needs of the times and is focused on proposals for environmental materials that are environmentally conscious, such wooden water tanks and the environmental pile method. In addition, it supplies home improvement center retail products to the group companies of DCM Holdings. It also undertakes construction work on home improvement centers. And, it is involved in sale and installation for materials and facilities for hotel, hospitals, and educational institutions.

3. Renewable energy business

The sales shares in the renewable energy business are as follows. Electricity sales from solar power generation accounts for 83.7%, the biodiesel fuel business accounts for 9.4%, and the compact wind power generation business accounts for 2.2%. Development and management of wind power and solar power facilities was consolidated into DASP in 2019, and following the transfer of the Company's biodiesel fuel business in July 2021 and merger of Sanei Ecohome, which had been acquired, in January 2023, the business was integrated into DASP.

(1) Power sales business through solar power facilities

In the solar power generation business, we rented and used the roofs of 130 DCM Group stores as of FY12/21 and completed grid connection for the power generation facilities that had been installed. This will be a long-term source of stable income. The deprecation period for solar power facilities is 20 years (straight-line method), equivalent to the acquisition period under the feed-in tariff scheme. As for the cost to dismantle the facilities in 20 years, the Company is already setting aside a budget proportionally divided throughout the period.

As well as the need to run a sustainable business after the FIT system, demand is increasing worldwide for various business models including PPA. After acquiring Sanei Ecohome in 2021, in February 2023, the Company acquired all shares in MEDEA, headquartered in Saitama City, Saitama Prefecture, and made it a subsidiary. MEDEA's main business is electrical engineering, mainly design, installation, and maintenance of solar power generation facilities, and sale of power generated by its own facilities. The Daiki Axis Group aims to build a structure that responds more quickly to demand from large-lot users by acquiring solar power generation-related management resources by proactive M&A.

(2) Biodiesel fuel business

The biodiesel fuel business was launched in 2002. It involves collecting plant-derived edible oil used for frying foods and other purposes generated by general households, restaurants, food processing plants, and other locations, and purifying it to create biodiesel fuel for reuse as alternative fuel, such as diesel fuel. Using biomass energy with plant-derived edible oil waste as the raw material is considered to be "carbon neutral." The Company is aiming to realize local-production, local-consumption, circulating-type energy, and while looking for local governments as partners, it is progressing the "Yu-More Oil Project" that promotes the recycling of edible oil waste.

A new development occurred in 2023. In April, DASP began providing D•OiL, a high-quality biodiesel fuel, to airport work vehicles as a part of a demonstration experiment run by the Matsuyama Branch of Japan Airlines <9201>. In addition, it is providing D•OiL to biofuel busses that started test operations in August in the Nikko region, which includes the Okunikko area, selected by the Ministry of the Environment as a decarbonization leading area.

(3) Compact wind power generation business

The compact wind power generation business was launched in FY12/19. By the end of FY12/21, Daiki Axis Sustainable Power had connected 12 compact wind power generation sites to the power grid and started FIT power sales. By the end of FY12/22, it plans to increase operations at 18 sites and is aiming to have 70 sites operating nationwide by the end of FY12/25. It anticipates that the power-sales revenue per site will be ¥2mn to ¥2.5mn and that the operating income margin will be around 25% to 30%. However, in FY2018, the purchase price in this classification was revised to ¥20/kWh, which is the same as the 20kWh and above classification, and therefore it intends to respond to the new FIT system with 50kW facilities. Once it obtains approval, it will install 50kW facilities at the less-than-20kW sites. This policy is to take advantage of the fact that although the installation costs are the same, the sales from the 50kW facilities are 2.5 times higher.

For the development of compact wind power generation equipment, in the Ministry of the Environment's 2020 Development and Demonstration Project for CO_2 Emissions Reduction Measures and Strengthened Induction Type Technologies, Zephyr Corporation, RICOH JAPAN Corp. (The Ricoh Company Ltd. <7752> Group company), and Daiki Axis Sustainable Power are participating as the joint implementers of a Technology Development and Demonstration Project for Low-Pressure Wind Power Generation Equipment. Based on the movement to create local disaster prevention methods and independent grids that utilize self-managed lines and existing distribution grids, and the emergence of a movement to consume self-produced reusable energy within business establishments, they are aiming to newly develop wind power generation facilities with a 50kW rated output, which is highly socially acceptable. Zephyr is responsible for the overall design of the wind turbine, design of the blades, conversion of automotive parts, field testing, and construction of the wind turbine control algorithm, while RICOH Japan will develop a maintenance support tool that utilizes AI. Daiki Axis Sustainable Power is responsible for the production of the FRP wind turbine blades.

Results trends

In 1H FY12/23, profit declined as price adjustments were slow to offset cost increases

1. Overview of 1H FY12/23 results

In consolidated results for 1H FY12/23, net sales increased by 4.9% YoY to ¥21,067mn, operating income declined 37.7% to ¥330mn, ordinary income fell 41.3% to ¥412 million, and profit attributable to owners of parent decreased 98.9% to ¥4mn, so revenue increased but there were large decreases in profits. Net sales increased as capital investment and repair investment which had been depressed by the COVID-19 pandemic recovered and there was an increase in subsidiaries. Gross profit increased 4.3% YoY, and the gross profit margin declined one percentage point to 20.6%. Soaring prices for raw materials, outsourcing costs, electricity and other energy costs could not be adequately offset by selling prices. SG&A expenses rose by 10.5%, a significant gain. Totaling regular pay raises, wages rose by an average of 6%, IT tools were deployed to increase administrative efficiency, and M&A was conducted, so the growth rate exceeded the revenue growth rate, which led operating income to decline. In non-operating income, the foreign exchange gain last year in 1H (¥94mn) changed to a foreign exchange loss (¥4mn), which widened the margin of decline in ordinary income. The major decline in profit attributable to owners of parent was primarily caused by recording expenses for addressing product non-conformance (¥198mn) as an extraordinary loss.

1H FY12/23 results

(¥mn)

	1H FY12/22		1H FY12/23		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	% Change
Net sales	20,091	-	21,067	-	976	4.9%
Gross profit	4,155	20.7%	4,333	20.6%	178	4.3%
SG&A expenses	3,624	18.0%	4,003	19.0%	379	10.5%
Operating income	530	2.6%	330	1.6%	-200	-37.7%
Ordinary income	703	3.5%	412	2.0%	-291	-41.3%
Profit attributable to owners of parent	393	2.0%	4	0.0%	-389	-98.9%

Source: Prepared by FISCO from the Company's results briefing materials

In July 2023, it was determined that the Company's Johkasou models DCX and DCW were not in conformance with the Buildings Standards Act or Purification Tank Act, which led to the posting of extraordinary loss as stated above. The Company received certified drawings and molds, etc. from alliance partner Daie Industry and received model certification based on the Buildings Standards Act and Purification Tank Act for the Daiki Axis DCX and DCW models. The DCX model is for 12 to 50 people and the DCW model is for 51 or more people. It was discovered the that products manufactured by Daie Industry did not have adequate effective capacity or adequate carrier (filler) material, so Company products manufactured using the same program and drawings were also non-conforming. There were no problems with the strength of the products or other safety issues, and with water quality, too, after confirming the results of a statutory test of the products (involving water quality, etc. testing after one year siting in the Johkasou tank, as required under the Purification Tank Act), it was found that trends were nearly the same as the results of statutory testing on regular water purifying tanks. For the DCW model, it was made to conform with the certification by increasing the standard amount of product carrier when shipping the product and adding carrier (filler) to the product when installed. With the DCX model, the Company will seek a new Minister's license around October 2025. Going forward, the Company will establish a system for checking the manufacture of products with certifications acquired from other companies with the same precision as products developed in-house. The Company is expected to record extraordinary losses in only FY12/23. Collaborating with the developer on the expense burden, the Company will post an extraordinary gain for the amount expected to be recovered during the second half, so the impact on the full term will be limited.

2. Results by business segment

By business segment, the environmental equipment business and household equipment business both saw higher revenues, but the renewable energy business stagnated. Segment profit was down in all three major businesses.

1H FY12/23 Results by business segment

(¥mn)

	1H FY12/22		1H FY12/23		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	% Change
Net sales	20,091	-	21,067	-	976	4.9%
Environmental equipment business	10,497	52.2%	10,853	51.5%	356	3.4%
(of which, overseas net sales)	1,292	12.3%	673	6.2%	-619	-47.9%
Household equipment business	8,144	40.5%	8,817	41.9%	673	8.3%
Renewable energy business	1,134	5.6%	1,095	5.2%	-39	-3.5%
Other businesses	315	1.6%	302	1.4%	-13	-4.2%
Operating income	530	2.6%	330	1.6%	-200	-37.7%
Environmental equipment business	823	7.8%	769	7.1%	-54	-6.5%
Household equipment business	225	2.8%	176	2.0%	-49	-21.7%
Renewable energy business	122	10.8%	66	6.0%	-56	-45.9%
Other businesses	20	6.3%	25	8.3%	4	21.4%
Adjustment	-660	-	-706	-	-46	-

Note: Segment profit margins are based on sales values for the respective businesses
Overseas net sales rate is the figure for the environmental equipment business
Source: Prepared by FISCO from the Company's results briefing materials

(1) Environmental equipment business

Net sales from the environmental equipment business rose 3.4% YoY to ¥10,853mn. Profit dropped by 6.5% to ¥769mm and the profit margin fell by 0.7 percentage points to 7.1%. Domestically and overseas, sales could not be adjusted enough to account for higher purchase prices, which led profit to decline.

In domestic markets, capital investment demand, which has been restrained by the COVID-19 pandemic, recovered, and large-scale projects increased, with sales being recorded as construction progressed. Net sales of the domestic Johkasou and wastewater treatment systems rose 10.9% YoY to ¥9,678mn. Maintenance increased by 10.8% to ¥3,045mn due to an increase in new contracts, and the clean water business that converts groundwater to drinking water rose 5.3% to ¥500mn. Sales of equipment to convert groundwater into drinking water without an ESCO contract increased, which led to an increase in post-sale maintenance contracts.

Overseas net sales were ¥673mn, a 47.9% (¥619mn) decline over the first half of last year. The overseas sales ratio in this business dropped from 12.3% to 6.2% YoY. A large industrial wastewater treatment project was completed in China and projects in India made steady progress. At the same time, in Indonesia, external demand was steady, but with domestic demand, there were no large projects and price competition intensified, so results slumped significantly. Looking at net sales by country, India rose ¥68mn YoY to ¥151mn, China climbed ¥55mn to ¥164mn, Indonesia declined ¥109mn to ¥121mn, Sri Lanka decreased ¥47mn to ¥4mn, and other regions fell ¥629mn to ¥190mn. In other regions, a large project in Iraq recorded the previous year dropped off.

(2) Household equipment business

Net sales from the household equipment business increased 8.3% YoY to ¥8,817mn. Profit fell by 21.7% to ¥176mn, and the profit margin fell 0.8 percentage points to 2.0%. The main factor depressing profit was the Company being slow to adjust selling prices in light of higher purchasing and outsourcing costs.

The restrictions on shipping products caused by difficulty procuring parts overseas have been eliminated, so sales to construction customers increased 6.8% to ¥5,578mn, and home improvement center retail products rose 4.7% to ¥956mn. Housing facilities projects increased 13.4% to ¥2,265mn, with a newly acquired subsidiary making a contribution. In FY12/23, the Company does not expect to record sales from construction of home improvement centers.

(3) Renewable energy business

Net sales from the renewable energy business declined 3.5% YoY to ¥1,095mn, and profit dropped 45.9% to ¥66mn. The profit margin on sales was 6.0%, 4.8 percentage points lower than the previous year. As for sales in each business, the power sales business through solar power facilities edged up 0.7% YoY to ¥917mn, biofuel sales increased 10.8% to ¥103mn, the hydrothermal treatment business declined 43.1% to ¥41mn, and the compact wind power generation fell 57.1% to ¥24 million.

3. Financial position

Regarding financial position as of the end of 1H FY12/23, total assets increased ¥2,908mn compared to the end of the previous fiscal year to ¥34,813mn. Looking at the major changes, current assets increased ¥722mn. Trade receivables declined by ¥936mn and cash and deposits increased by ¥1,644mn. Non-current assets increased ¥2,135mn due in part to M&A. In the environmental equipment business, the Company acquired machinery for an Indian factory, and in the renewable energy business, machinery and land were acquired in connection with augmenting FIT facilities and the start of a PPA model project. With regard to liabilities, M&A was conducted and borrowings increased due to investing in business construction with a view to the post-FIT environment.

Consolidated balance sheet and management indicators

(¥mn)

	FY12/19	FY12/20	FY12/21	FY12/22	End of 1H FY12/23	Change
Current assets	18,906	17,448	19,981	19,038	19,811	772
(Cash and deposits)	7,165	7,896	6,298	7,268	8,912	1,644
(Trade receivables)	8,562	7,116	9,382	9,761	8,825	-936
(Inventories)	2,573	2,063	3,752	1,514	1,625	111
Non-current assets	11,001	10,330	12,270	12,867	15,002	2,135
Property, plant and equipment	8,362	8,047	9,420	10,093	11,140	1,047
Intangible assets	1,032	742	1,207	1,020	1,711	691
Investments and other assets	1,606	1,540	1,642	1,753	2,150	397
Total assets	29,907	27,778	32,252	31,905	34,813	2,908
Current liabilities	18,624	15,878	16,839	16,134	17,381	1,247
(Notes and accounts payable-trade)	3,889	3,528	4,720	4,360	4,527	167
(Loans payable, corporate bonds, etc.)	10,847	9,525	7,548	8,925	10,049	1,124
Non-current liabilities	2,079	4,265	6,572	6,248	8,121	1,872
(Corporate bonds, loans payable, etc.)	681	2,979	5,127	4,951	6,812	1,861
Total liabilities	20,704	20,144	23,412	22,382	25,502	3,119
(Interest-bearing debt)	11,529	12,555	12,675	13,876	16,861	2,985
Total net assets	9,203	7,634	8,839	9,522	9,311	-211
[Stability]						
Current ratio	101.5%	109.9%	118.7%	118.0%	114.0%	-4.0pt
Equity ratio	23.9%	27.5%	27.4%	29.8%	26.7%	-3.1pt

Source: Prepared by FISCO from the Company's financial results

4. Cash flow

The balance of cash and cash equivalents at the end of 1H FY12/23 increased ¥1,518mn from the end the previous fiscal year to ¥8,656mn. Cash flows provided by operating activities were ¥1,543mn, but cash flows used in investing activities totaled ¥1,601mn, so free cash flow was negative ¥58mn. The main outflows for investing activities were acquisition of property, plant and equipment (¥651mn), outlays for the acquisition of investment securities (¥364mn), and outlays for the acquisition of stock in subsidiaries associated with a change in the scope of consolidation (¥611mn). Net cash provided by financing activities was ¥1,605mn due to an increase in long-term borrowings.

Consolidated statements of cash flows

(¥mn)

	FY12/19	FY12/20	FY12/21	FY12/22	1H FY12/23
Cash flows from operating activities (a)	2,416	2,222	520	1,261	1,543
Cash flows from investing activities (b)	-2,846	-1,047	-1,505	-1,548	-1,601
Cash flows from financing activities	1,642	-424	-703	790	1,605
Free cash flows (a) + (b)	-430	1,175	-985	-287	-58
Balance of cash and cash equivalents at end of period	7,124	7,856	6,250	7,138	8,656

Source: Prepared by FISCO from the Company's securities report

Outlook

Upfront investment expenses expected to make a positive contribution to results starting in FY12/24

1. Outlook for full-year FY12/23 results

For the FY12/23 full-year consolidated results, the Company is forecasting net sales of ¥40,000mn (up 1.3% YoY), operating income of ¥570mn (down 31.0%), ordinary income of ¥660mn (down 43.7%), and profit attributable to owners of parent of ¥327mn (down 43.1 %). Initial forecasts for net sales were maintained, but profits were downwardly revised given the results from 1H and the lack of smooth progress in adjusting sales prices to make up for cost increases.

Outlook for FY12/23 consolidated results

(¥mn)

	FY12/22		FY12/23		YoY	
	Results	Ratio to sales	Forecast	Ratio to sales	Change	% Change
Net sales	39,478	-	40,000	-	522	1.3%
Environmental equipment business	20,477	51.9%	20,030	50.1%	-447	-2.1%
(of which, overseas net sales)	2,247	11.0%	1,400	7.0%	-847	-37.7%
Household equipment business	16,421	41.6%	17,500	43.8%	1,078	6.6%
Renewable energy business	1,938	4.9%	1,850	4.6%	-88	-4.5%
Other businesses	642	1.6%	620	1.6%	-22	-3.5%
Gross profit	8,174	20.7%	8,370	20.9%	196	2.4%
SG&A expenses	7,347	18.6%	7,800	19.5%	452	6.2%
Operating income	826	2.1%	570	1.4%	-256	-31.0%
Environmental equipment business	1,497	7.3%	1,320	6.6%	-177	-11.8%
Household equipment business	321	2.0%	390	2.2%	68	21.5%
Renewable energy business	197	10.2%	310	16.8%	112	57.4%
Other businesses	48	7.5%	46	7.4%	-2	-4.2%
Adjustment	-1,238	-	-1,496	-	-257	-
Ordinary income	1,172	3.0%	660	1.7%	-512	-43.7%
Profit attributable to owners of parent	574	1.5%	327	0.8%	-247	-43.1%

Note: Segment profit margins are based on sales values for the respective businesses
Source: Prepared by FISCO from the Company's results briefing materials

Regarding the outlook for net sales and profit by segment, sales from the environmental equipment business is expected to be ¥20,030mn (down 2.1% YoY) and profit from the business is expected to be ¥1,320mn (down 11.8%). At the time, sales from the household equipment business is forecast to be ¥17,500mm (up 6.6%) and profit to be ¥390mn (up 21.5%), and sales from the renewable energy business is expected to ¥1,850mn (down 4.5%) and profit to be ¥310mn (up 57.4%). In the household equipment business, a construction company that was acquired will make a full contribution in the second half. In the renewable energy business, there is usually more power produced by solar power facilities in the second half.

The large decline in profit in FY12/23 is attributable to being slow to adjust prices to make up for rising costs and to rising expenses. This increase in expenses includes elements of upfront investment, and this should begin making a positive contribution to results starting in FY12/24. As a part of investment in human capital, the Company rose the base by around 6% on average in spring 2023 for the second consecutive year. According to the Japanese Trade Union Confederation, the average wage rate achieved during the annual spring labor negotiations in 2023 was 3.58%, the highest increase in the last 30 years. However, based on the Monthly Labor Survey put out each month by the Ministry of Health, Labour and Welfare, real wages, which are nominal wages adjusted by changes in prices, have fallen for 16th consecutive months as of July 2023. The company has raised base wages in order to retain employees and increase engagement with them. Raising wages and investing in IT will serve to increase labor productivity. In FY12/23, the Company began using Slack and kintone, which are IT tools to strengthen information sharing, facilitate coordination among divisions and enhance internal communication. To improve the functioning of the Board of Directors, an assessment of the effectiveness of the board was carried out by an outside institution. This is expected to help raise corporate value.

In overseas business, in the second half of last year, the Company completed an assembly plant for compact Johkasou in Sri Lanka and a manufacturing plant for medium- to long-scale Johkasou in India. Launching operations at the new plants entailed increased training costs and educational costs for local employees. This will put downward pressure on profit for the short term, but the expenditures are indispensable to stable operations, increasing product quality, and expanding production capacity.

Main increases in SG&A expenses in FY12/23 and expected effects

Factora	Expected effects	Expected contribution to results
Investment in human capital	Retention of employees	Increased employee productivity
Raising base wages	Increased engagement	
Measures associated with strengthening the organizational foundation	Increased business efficiency	Increased employee productivity
- Introduction of IT tools such as Slack and kintone	• Elimination of information disparities • Department coordination, enhanced internal communication	
Investment in overseas business	Increased product quality	Higher profit margin from lower transport costs
- Travel expenses for training related to launching operations at new plants	Stable supply of products thanks to high production capacity	
- Increase in local employees from starting operations at new plants		
Investment in growth fields through M&A	Strengthening main businesses	Higher Group profitability
- Acquisition of MEDEA Co., Ltd. and ADORE SYSTEM Co., Ltd.		
Revisions to corporate governance	Enhanced functioning of the Board of Director through a PDCA cycle	Contribution to increase corporate value
- Assessment of the effectiveness of the Board of Directors by an outside institution		

Source: Prepared by FISCO from the Company's financial results

2. Medium-term business plan

The medium-term management plan was extended to four years, putting the final year at FY12/25 from a long-term, sustainable growth standpoint, partially due to the COVID-19 pandemic. Embodying its corporate slogan of "PROTECT×CHANGE," the Company seeks to be an ESG company. Targets for FY12/25 are as follows. Net sales are projected to be ¥45,000mn, an increase of 14.0% against FY12/22 results, operating income to reach ¥2,000mn, an increase of 142.1%, and an operating margin 4.4% (2.1% in FY12/22). Initial forecasts for net sales in FY12/23 were kept the same, but the forecast for operating income was downwardly revised from ¥800m initially to ¥570mn, as the hurdle to achieve the goal got higher.

The contribution to the increase in revenue (¥5,522mn) is accounted for by ¥1,523mn from the environmental equipment business, ¥2,579mn from the household equipment business, and ¥562mn from the renewable energy business. The increase in profit before adjustments (¥1,174mn) is expected to receive contributions of ¥823mn from the environmental equipment business, ¥379mn form the household equipment businesses, and ¥503mn from the renewable energy business. Overseas sales from the environmental equipment business is projected at ¥4,000mn, which would be an increase of ¥1,753mn compared to FY12/22. As the burden of upfront investment lessens, profitability is expected to go up.

As of the 1H FY12/23, progress against the growth strategy in its medium-term management plan is commendable. In evaluating the progress of the growth strategy, expansion of the recurring-income business, the renewable energy business, and promotion of M&A were all going according to plan. At the same time, overseas development (environmental equipment business) and conversion from stability to growth (household equipment business), raising technological capability and product development capability, and IT promotion were assessed as being slightly behind schedule.

Medium-Term Management Plan Progress of Growth Strategy

	Policy	Comment	Evaluation
Overseas expansion (Environmental equipment business)	• Construction of local production systems in high demand areas • Active hiring of overseas human resources • Revision of systems and rules related to overseas business and new establishment	Built new plants in India and Sri Lanka Struggled to hire personnel and conduct training; India factory operations did not proceed according to schedule	△
Expand the recurring-income business	Expansion in the recurring-income business, stable profit foundation	Thoroughly managed prices in the business that converts groundwater to drinking water; increased orders by focusing on equipment sales and not just the recurring-income business In wastewater treatment maintenance, started strengthening proposal-based sales for repair work	○
Transformation from stability to growth (Household equipment business)	Market expansion through sales to home improvement centers (nationwide) New store development, deployment and sales of new materials, initiatives for new construction projects Continuation of initiatives to reduce purchase costs by instituting centralized purchasing Taking on the challenge of EC business Human resources development (strengthening of sales capacity) Visualization and standardization of processes, including back office (Complementarity of employees)	Struggled in eastern Japan to expand home improvement center market Developed new stores according to plan; material purchases for COVID-19 measures ran their course EC business system-building proceeded steadily, but the contribution to profit was low, so this will need to be considered going forward Steady initiatives for human resources development and complementarity among employees	△
Renewable energy business	Expansion in D • OiL sales volume and the area for waste oil recovery in collaboration with local government bodies Trend surveys, collaborations and proposals related to environmentally progressive companies (RE100, RE Action member companies, etc.)	Sold B5 diesel and steadily expanded area for recovery of waste fuel Steadily surveyed trends at environmentally progressive companies; requested cooperation from existing business partners	○
Improved technological capabilities and product development capabilities	Thorough elimination of complaints in the manufacturing process Human resources development (strengthen specialization) Continued development and stable operations of wind and solar power generation sites Further reductions to environment impact, further evolution to battery storage technologies, etc., disaster prevention and preparedness measures, proposals of high value-added businesses for post-FiT that will contribute to local production and consumption	In the domestic environmental equipment business, there is a shortage of development personnel, so the Company was not able to launch sales of new products. Overseas, the Company flexibly accommodated changes in product specifications based on customer requests. Continued development and stable operations of wind power and solar power generation sites No evolution in battery storage technology, but plan to develop a business model that combines renewable energy and power plants and is steadily building power plants	△
Progress M&A	Expansion of market sphere and handled products by utilizing M&A	In the household equipment business, M&A progressing and contributing to net sales In the renewable energy business, M&A progressing and contributing to technological capabilities and development capabilities	○
Promote IT	Active utilization of IT tools Strengthening of information sharing system	Deployed sales support tools Created telework system	△

Note: Evaluations: ○: According to plan △: Slightly behind schedule
Source: Prepared by FISCO from the Company's results briefing materials

(1) Expand the recurring-income business

In the business that converts groundwater to drinking water, equipment sales have been steady and costs are being rigorously controlled. In wastewater treatment maintenance as well, the Company is strengthening proposal-based sales for repair work. In the biodiesel fuel business, which is part of the renewable energy business, D•OiL sales volume grew, and the waste oil recovery area is steadily expanding. Through M&A, the Company reinforced the construction division of the household equipment business and it increased sales and improved profitability. In addition, in the renewable energy business, planning, construction, sales, and maintenance functions were established for solar power facilities with a view to the post-FIT environment.

(2) Overseas business expansion

With regard to overseas business expansion, a new factory was completed in Sri Lanka in October 2022. The factory is for assembling small-scale Johkasou, and it has gotten off to a smooth start. In India, because the factory is for integrated production of medium- and large-scale Johkasou it has taken some time to establish quality management for each process. The new factory was completed in November 2022, but the first shipment took until February 2023. It has taken time to hire and train personnel. Production capacity is 30 units per month, equivalent to the first factory for consignment production, but the production scope is being expanded to medium- and large-scale Johkasou. Demand is rampant, so the Company will focus on training personnel for expanding scale as a production target. Going froward, it will consider initiatives for a third factory and others, such as building an assembly plant like the one in Sri Lanka. At the Indonesian factory, the export portion for India has dropped off, so a lower factory operating rate is an issue. As a measures to address this, the Company will acquire new local customers alongside its existing Japan-affiliated companies. Three sales distributors will be in charge of cultivating local demand.

(3) Promote IT

The Company is promoting IT as a part of its DX strategy. It recently deployed Slack, a business chat tool, and also kintone, a platform for improving work processes. Slack provides a place for open discussion where opinions can be collected from different departments in order to promote the sharing of information. Inter-departmental projects are increasing, and by organizing information across multiple departments, it reduces information-sharing mistakes, lessens redundant work, and helps speed up processes. kintone seeks to integrate design, estimates, orders, manufacturing, construction and maintenance into a single system. In the previous workflow, there were verbal, paper, and fax exchanges and Excel data possessed by individuals that wasn't shared. Utilizing kintone has reduced mistakes and oversights by lessening redundancies and ensuring information is shared on a streamlined basis. Deploying new IT tools is an opportunity to revise existing workflows. New IT tools make it possible to carry out alternatives to existing systems and reduce costs.

(4) Improved technological capabilities and product development capabilities

In August 2023, the Company announced a new model of medium-sized Johkasou, DCX2. The product is a 12-50 person anaerobic filter bed-carrier flow type Johkasou. It has a nitrogen removal function that limits eutrophication of groundwater and rivers where the treated water is released. This allows it to comply with strict water quality regulations. The simple design makes it easy to maintain and clean.

(5) Planned changes in top executives

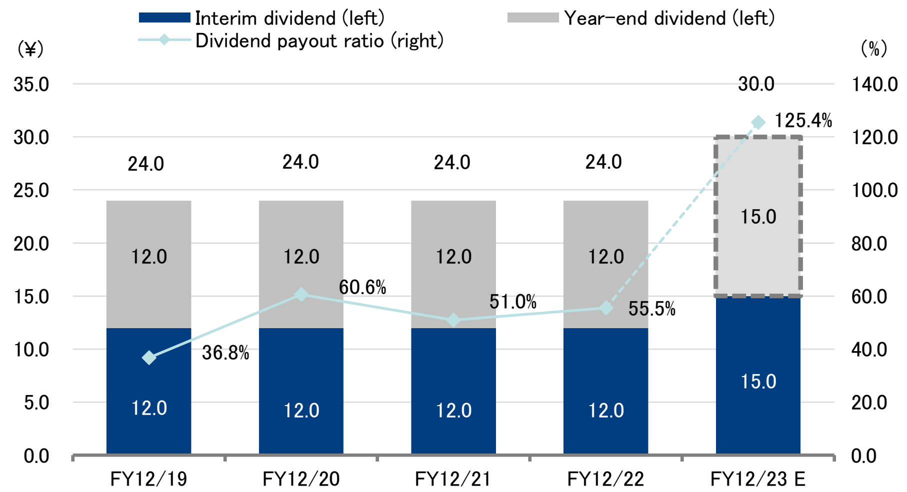
In September 2023, based on the report of the Nomination and Remuneration Committee, the Board of Directors resolved to make changes in the representative director and others. As of January 1, 2024, it is scheduled that President and CEO Hiroshi Ogame will be become representative director and chairman and Hiroki Ogame, who is currently a senior managing director, will become the Company's president and CEO. Senior Managing Director Ogame currently serves as the chief information officer (CIO) and chief global officer (CGO) and is responsible for management strategy and overseas business strategy. He also chairs the Sustainability Committee. Director and Vice President Akihiro Horibuchi will be appointed director and deputy chairman.

Shareholder return policy

Maintaining a per-share dividend of ¥30 for the full year as initially planned for FY12/23

The Company's shareholder return policy is premised on a consolidated dividend payout ratio of 30%. Over a period of five fiscal years up to FY12/22, it has continued to pay a dividend of ¥24 per share. The dividend payout ratio was 55.5% in FY12/22. The Company marks the 65th anniversary of its founding in FY12/23. It plans to pay a commemorative dividend of ¥6 per share. This will be added to its ordinary dividend of ¥24 per share for an annual dividend of ¥30 per share (interim dividend: ¥15 per share, year-end dividend: ¥15 per share). The full-year profit forecasts were downwardly revised so the planned dividend payout ratio will be over 100%.

Dividend per share and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

The Company has introduced the Daiki Axis Premium Benefit Club as a shareholder benefit program. On the site, food products, electronic products, gifts, travel, experiences—over 2,000 products can be exchanged for shareholder benefit coins that can be combined with the benefit points of other companies with premium benefit programs. Shareholders with at least 500 shares receive 3,000 points. Points increase on a sliding scale depending on the number of shares held. Shareholders with 3,000 or more shares are increased to 40,000 points. The shares have to be held for at least one year and the points are at a 1.1x premium.

Shareholder benefits program

Number of shares held	Shareholder benefits
500 to 599 shares	3,000 Premium Benefits Club points (1.1 times if the shares have been held for more than one year. Applies to all below)
600 to 699 shares	4,000 points
700 to 799 shares	5,000 points
800 to 899 shares	6,000 points
900 to 999 shares	7,000 points
1,000 to 1,999 shares	8,000 points
2,000 to 2,999 shares	20,000 points
More than 3,000 shares	40,000 points

Source: Prepared by FISCO from the Company's results briefing materials

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